

Message Text

CONFIDENTIAL

PAGE 01 MAPUTO 00933 01 OF 02 200906Z

12
ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 AID-05 TRSE-00 OMB-01 IO-13 COME-00

SIL-01 LAB-04 INT-05 SAM-01 /104 W
----- 061312

R 191420Z AUG 76
FM AMEMBASSY MAPUTO
TO SECSTATE WASHDC 4918
INFO AMEMBASSY DAR ES SALAAM
AMEMBASSY GABORNE
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY LUSAKA
AMZMBASSY PRETORIA 1642
AMEMBASSY LILONGWE
AMEMBASSY MBABANE
AMEMBASSY NAIROBI

C O N F I D E N T I A L SECTION 1 OF 2 MAPUTO 0933

E.O. 11652: GDS
TAGS: PGEN, EGEN, SGEN. MZ
SUBJECT: MOZAMBIQUE ASSESSMENT (4); STATE OF THE ECONOMY

REF: MAPUTO 886

1. SUMMARY: MOZAMBIQUE'S FIRST YEAR OF INDEPENDENCE
HAS BEEN MARKED BY A SHARP DECLINE IN THE ECONOMY.
ALMOST ALL INDICATORS ARE DOWN; AGRICULTURAL EXPORT
PRODUCTION IS DOWN BY 40-60 PERCENT, (4-8) AND PORT
EARNINGS BY AT LEAST 25 PERCENT, AND PER CAPITA GDP
BY AN ESTIMATED 20 TO 30 PERCENT TO BELOW \$200.
PRINCIPAL REASONS FOR THE DECLINE HAVE BEEN THE EXODUS
OF THE EUROPEAN POPULATION, THE ABSENCE OF EFFECTIVE
GOVERNMENT LEADERSHIP IN ECONOMIC MATTERS, SEVERE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MAPUTO 00933 01 OF 02 200906Z

IMPORT RESTRICTIONS, AND DECREASED LABOR PRODUCTIVITY.

THE APPLICATION OF ECONOMIC SANCTIONS AGAINST RHODESIA IN MARCH 1976 AGGRAVATED THE ECONOMIC CRISIS. ALTHOUGH SOME OBSERVERS ARE EXPRESSING CAUTIOUS OPTIMISM, STATING THAT THE "WORST IS OVER," WE BELIEVE THE ECONOMY WILL CONTINUE ITS DOWNWARD TREND BEFORE BOTTOMING OUT.

2. THE PORTUGUESE EXODUS: THE MOST IMPORTANT CAUSE OF THE ECONOMIC DOWNTURN HAS BEEN THE EXODUS OF THE PORTUGUESES, WHO COMPRISED THE BULK OF THE SKILLED WORKERS AND MANAGERIAL TALENT. THE PORTUGUESE POPULATION, ONCE ESTIMATED AT 250,000 (OVERLAID ON AN INDIGENOUS POPULATION OF 9 MILLION), HAD DROPPED BY INDEPENDENCE TO ABOUT 110,000. BY THE END OF 1976 NO MORE THAN 15,000 ARE EXPECTED TO REMAIN. (MANY THINK NO MORE THAN HALF THAT NUMBER.)

3. WHILE THE EXODUS HAS HAD MINIMAL EFFECT ON THE BULK OF THE RURAL POPULATION WHO LIVE LARGELY IN A SUBSISTENCE ECONOMY, THE EFFECT OF THE EXODUS ON THE CITIES AND THE MONETISED SECTOR OF THE ECONOMY HAS BEEN PERVASIVE. ALMOST EVERY FIRM, AND MANY SERVICES AND GOVERNMENT AGENCIES, REPORT LOSSES OF KEY STAFF FROM 50 TO 70 PERCENT, WITH SHARP DROPS IN PRODUCTIVITY. ATTEMPTS TO FIND QUALIFIED MOZAMBIKAN REPLACEMENTS HAVE BEEN LARGELY UNSUCCESSFUL. PRODUCTION AND MARKETING OF MOZAMBIQUE'S MAJOR EXPORT CROPS (CASHEWS, COTTON, SUGAR AND TEA) HAVE DROPPED AS WHITE PLANTATION OWNERS, MIDDLE-MEN AND MANAGERS LEAVE. SINCE THE PORTUGUESE PAID MOST OF THE INDIVIDUAL AND BUSINESS TAXES, THEIR DEPARTURE HAS ALSO RESULTED IN A SHARP DROP IN GOVERNMENT TAX REVENUE.

4. GPRM AND THE ECONOMY; THE GOVERNMENT HAS ANNOUNCED ITS INTENTION TO PURGE MOZAMBIQUE OF THE EVILS OF CAPITALISM AND TO ESTABLISH A SOCIETY FOUNDED ON SOCIALIST PRINCIPLES, BUT HAS FAILED TO PROVIDE STRONG AND EFFECTIVE LEADERSHIP OF THE ECONOMY. PRIORITY HAS INSTEAD BEEN GIVEN TO POLITICAL MATTERS AND TO THE ORGANIZATION OF THE NEW GOVERNMENT. MANY MAJOR ECONOMIC DECISIONS HAVE BEEN DEFERRED. FORMULATION

CONFIDENTIAL

PAGE 03 MAPUTO 00933 01 OF 02 200906Z

OF A DEVELOPMENT PLAN IS NOT SCHEDULED UNTIL THE END OF 1976. ALTHOUGH THE GOVERNMENT HAS REPORTEDLY DECIDED TO APPLY FOR MEMBERSHIP IN THE IMF AND IBRD, IT HAS NOT YET DONE SO. NO DECISIONS HAVE YET BEEN MADE TO JOIN THE LOME CONVENTION. IN THE ABSENCE OF A FOREIGN INVESTMENT CODE AND A RAPIDLY SHRINKING ECONOMY, FOREIGN INVESTORS HAVE SHIED AWAY FROM MOZAMBIQUE. TO THE BEST OF OUR KNOWLEDGE ONLY ONE PRO-

JECT INVOLVING FOREIGN INVESTMENT, THAT OF THE MOATIZE COAL MINE EXPANSION (J JOINT GERMAN-JAPANESE UNDERTAKING) WAS INITIATED DURING THE YEAR. THE GOVERNMENT HAS ALSO BEEN SLOW IN FOLLOWING UP ON OFFERS OF FOREIGN ASSISTANCE, WHICH NOW TOTAL MORE THAN \$200 MILLION, \$700 MILLION OF WHICH HAS BEEN PLEDGED SINCE THE UNITED NATIONS SECURITY COUNCIL CALLED ON UN MEMBERS TO HELP MOZAMBIQUE BEAR THE ECONOMIC COST OF CLOSING ITS BORDER WITH RHODESIA.

5. GPRM FISCAL POLICY HAS BEEN AUSTERE. IN THE 1976 BUDGET, THE GOVERNMENT PARED SPENDING BY ONE THIRD. IMPORTS HAVE BEEN SEVERELY RESTRICTED, AND MANY FIRMS ARE UNABLE TO IMPORT RAW MATERIALS OR SPARE PARTS. AS A RESULT, SOME FIRMS HAVE CLOSED, AND OTHERS HAVE HAD TO SUSPEND OPERATION FOR SEVERAL MONTHS.

6 LABOR: ADDING TO THE POLITICAL AND COMMERCIAL UNCERTAINTIES FACING COMPANIES, LABOR DEVELOPMENTS HAVE ADVERSELY AFFECTED THE ECONOMY. THESE DEVELOPMENTS INCLUDE MANAGERIAL INTERFERENCE BY WORKERS' ORGANIZATIONS (THE GRUPOS DYNAMIZADORES), SOARING ABSENTEEISM AND SHARP DROPS IN PRODUCTIVITY. ENCOURAGED BY THE GOVERNMENT, GRUPOS TOOK IT UPON THEMSELVES TO PARTICIPATE IN THE MANAGEMENT OF THEIR FACTORIES, OFFICES AND PLANTATIONS, TO QUESTION COMPANY POLICIES AND TO SUPERVISE WORKERS. MANAGEMENT EFFORTS TO DISCIPLINE WORKERS WERE HAMSTRUNG BY THE GRUPOS. AS ECONOMIC ACTIVITY DECLINED, MANY FIRMS FOUND THEMSELVES WITH REDUNDANT WORKERS THEY COULD NOT DISCHARGE BECAUSE OF A NEW LAW FORBIDDING INCREASED UNEMPLOYMENT.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MAPUTO 00933 02 OF 02 200927Z

16
ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 AID-05 TRSE-00 OMB-01 IO-13 COME-00

SIL-01 LAB-04 INT-05 SAM-01 /104 W
----- 061543

R 191420Z AUG 76
FM AMEMBASSY MAPUTO
TO SECSTATE WASHDC 4919
INFO AMEMBASSY DAR ES SALAAM
AMEMBASSY GABORNE
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY LUSAKA
AMEMBASSY PRETORIA
AMEMBASSY LILONGWE
AMEMBASSY MBABANE
AMEMBASSY NAIROBI

C O N F I D E N T I A L SECTION 2 OF 2 MAPUTO 0933

7. THE EFFECTS OF GRUP INTERFERENCE, ABSENTEEISM AND LOW PRODUCTIVITY FINALLY COMMANDED THE ATTENTION OF GPRM IN EARLY 1976, AND CORRECTIVE ACTIONS WERE INITIATED, THE GRUPOS WERE CRITICIZED AND REORGANIZED, THEIR AUTHORITY TO INTERFERE IN MANAGEMENT MATTERS CURTAILED, AND A POLITICAL OFFENSIVE LAUNCHED AGACNST LOW PRO- DUCTIVITY AND ABSENTEEISM. RECENTLY, BUSINESSMEN HAVE REPORTED A NEW SPIRIT OF COOPERATION FROM THEIR GRUPOS. LABOR PROBLEMS HAVE DECREASED, ABSENTEEISM IS DROPPING, AND THE DECLINE IN PRODUCTIVITY HAS BEEN SLOWED.

8. ECONOMIC RELATIONSHIPS WITH RHODESIA AND SOUTH AFRICA: MOZAMQUES'S ECONOMIC CRISIS WAS AGGRAVATED WHEN THE GPRM CLOSED ITS BORDER WITH RHODESIA ON MARCH 3, 1976. THE UNITED NATIONS ESTIMATE THE DIRECT CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MAPUTO 00933 02 OF 02 200927Z

COSTS OF APPLYING SANCTIONS AGAINST RHODESIA AT BE- TWEEN \$139 AND \$165 MILLION FOR THE FIRST YEAR ALONE.

9. CONTRARY TO THE LONG-TERM DESIRES OF THE GPRM, MO- ZAMBIQUE CONTINUES TO BE HEAVILY DEPENDENT ON SOUTH AFRICA. PROFITS FROM THE SALE OF GOLD PAID BY SAG TO GPRM FOR MIGRANT MINE LABOR HAS BECOME THE COUNTRY'S MAJOR SOURCE OF FOREIGN EXCHANGE, ALTHOUGH THE NUMBER OF MOZAMBICANS WORKING IN THE MINES HAS DROPPED FROM A HIGH OF 105,000 AT THE END OF 1975 TO 80,000 TODAY, AND LABOR RECRUITERS EXPECT THE DECLINE TO CONTINUE RAIL AND PORT TRAFFIC WITH THE TRANSVAAL, ALTHOUGH DOWN FROM 1975, REMAINS AN IMPORTANT FOREIGN EXCHANGE EARNER AND SOURCE OF EMPLOYMENT. PORT AND RAIL ACTIVITY COULD INCREASE IF MOZAMBIQUE RESPONDS TO SOUTH AFRICA'S OFFER TO STEP UP SHIPMENTS OF COAL AND ORE AND ACCEPTS SOUTH AFRICA'S OFFER OF TECHNICAL ASSISTANCE TO THE PORT AND RAILWAY. SALE OF POWER

FROM THE CABORA BASSA DAM WILL ADD TO SOUTH AFRICA'S
RELATIVELY IMPORTANCE TO THE MOZAMBIQUE ECONOMY.
THIS PROJECT CONTINUES TO BE DELAYED, HOWEVER.

10. THE FUTURE: THE GOVERNMENT'S INABILITY TO RAPIDLY
TRAIN OR RECRUIT REPLACEMENTS FOR DEPARTING TECHNICIANS
AND MANAGERS WILL HAMPER ITS ABILITY TO MANAGE ECONOMIC
ACTIVITY, AND MAY AFFECT ITS ABILITY TO MAINTAIN
ESSENTIAL SERVICES. COMMERCIAL AND INDUSTRIAL ACTIVITY
IS UNLIKELY TO IMPROVE AS LONG AS TIGHT IMPORT RE-
STRICTIONS PREVENT REPLENISHMENT OF RAW MATERIAL
INVENTORIES AND SPARE PARTS. RECENTLY INCREASED
SALES AND IMPORT TAXES WILL FUEL INFLATION AND PRESSURE
FOR HIGH WAGES. UNTIL THE GOVERNMENT ANNOUNCES A
DEVELOPMENT PLAN AND FOREIGN INVESTMENT CODE, DEVELOP-
MENT WILL BE SLOW.
DE PREE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INTELLIGENCE ASSESSMENTS, FOREIGN TRADE
Control Number: n/a
Copy: SINGLE
Draft Date: 19 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MAPUTO00933
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760319-0873
From: MAPUTO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760839/aaaabhwg.tel
Line Count: 240
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 MAPUTO 886
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 04 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 MAY 2004 by BoyleJA>; APPROVED <30 AUG 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MOZAMBIQUE ASSESSMENT (4); STATE OF THE ECONOMY
TAGS: PFOR, EGEN, SGEM, MZ
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006